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Tobacco and Products

Annual

2000

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Report Highlights:

Exports rose in 1999. During 1999 a “Tobacco War” was waged between the domestic tobacco factory in Rovinj and the British American Tobacco Co. (BAT) regarding future market positions. In June 2000 the Croatian government increased the excise taxes on tobacco products by 10%. The “Law on Restriction of Use of Tobacco Products” was introduced starting January 2000.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Vienna [AU1], HR

General Summary

Exports rose in 1999. During 1999 a “Tobacco War” was waged between the domestic tobacco factory in Rovinj and the British American Tobacco Co. (BAT) regarding future market positions. In June 2000 the Croatian government increased the excise taxes on tobacco products by 10%. The “Law on Restriction of Use of Tobacco Products” was introduced starting January 2000.

Production

In 1999 tobacco production was 11,293 MT which is circa 17% lower than in 1998. The decline in production was result of a 13% decrease in planted area and a decrease in yields from 1.63 MT/ha to 1.55 MT/ha. In recent years production of dry tobacco was relatively stable, ranging between 9,500 and 11,500 MT during the last three years. The needs of domestic industry on this type of tobacco are around 7,000 MT.

Broad-leaf tobacco, which predominates, is mainly produced in two counties, Viroviticko-podavska and Pozesko-slavonska, while production of narrow-leaf tobacco in the south-eastern part of Dalmatia has been abandoned. The majority of Croatian tobacco production is located on small private farms. About 20% of total production is on large plantations with better technology.

The Croatian government sets the average floor price for tobacco leaves paid to producers for Grades 1 to 4. Although the floor price for 2000 has not been yet announced, it can be expected to remain on the same level as in the previous three years, at 8.00 HRK/kg DWP. The initial price set in April 1992 was 186 HRD¹/kg DWP. Due to high inflation it was raised to 500 HRD in September, while the 1993 price was set at 2,900 HRD/kg DWP. In 1994 price was fixed in German marks at the equivalent of \$1.54/kg DWP. In 1995 price was set at 7.44 HRK. The price for 1996 stayed the same while as noted previously the price for 1997, 1998 and 1999 was set at 8.00 HRK/kg DWP.

Besides the guaranteed floor prices, the Croatian government also provides subsidies for tobacco production. Early in 2000, the subsidy for tobacco production was increased from 4 HRK/kg to 4.8 HRK/kg. This compares to these prior levels: effective subsidies in 1992 and 1993 were assessed at \$0.01 and \$0.03/kg DWP respectively. The subsidy was pegged to the German mark in 1994 and amounted \$0.47/kg DWP. In 1995 and 1996 the subsidy was \$0.76 and \$0.57/kg DWP, respectively, while in 1997 the subsidy was set at \$0.5/kg DWP. In 1998 the subsidy was increased to \$0.62/kg DWP.

Trade

Total Croatian tobacco exports in 1999 continued to grow (up 10% compared to 1998), amounting to 6,626 MT. The most important export destinations were Egypt, Slovenia, France, Macedonia, Bosnia and Herzegovina and Great Britain. All exported tobacco was Virginia flue-

¹ HRD - Croatian dinar, precursor to the Croatian kuna.

cured type. The value of exports in 1999 was around \$17 million. Egypt was the most important importer of Croatian tobacco, covering almost 30% in total exports.

Croatian tobacco imports in 1999 amounted to 3,878 MT. The main suppliers were Zimbabwe, Malawi, the United States, and Macedonia. Cigarette companies need burley tobacco for blending. The total value of tobacco imports in 1999 was \$23,844,700, of which imports from the U.S. amounted to \$7,633,189.

Currently, the import duty on raw or unprocessed tobacco (HS code 24.01) is 20%, on cigarettes (HS code 24.02) 25% and on other processed tobacco (HS code 24.03) 20%. There are no quantitative restrictions on import of tobacco and tobacco products.

However, following the Croatian accession to the World Trade Organisation (WTO) that is expected during Summer 2000, the duties on tobacco and tobacco products will significantly drop and will be:

Tariff item number	Description	Base Rate of Duty	Bound Rate of Duty	Implementation
2401	Unmanufactured tobacco; tobacco refuse.			
240110	-Tobacco, not stemmed/stripped		20	
240120	-Tobacco, partly or wholly stemmed/stripped	20	15	2000 - 2005
240130	-Tobacco refuse		20	
2402	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.			
240210	-Cigars, cheroots and cigarillos, containing tobacco			
2402101	--- Cigars		15	
2402102	--- cigarillos		15	
240220	-Cigarettes containing Tobacco	53	38	2000 - 2004
240290	-Other		35	
2403	Other manufactured tobacco and manufactured tobacco substitutes; "homogenized" or "reconstituted" tobacco; tobacco extracts and essences.			
240310	-Smoking tobacco, whether or not containing tobacco substitutes in any proportion			
2403101	--- Cut tobacco	46	36	2000 - 2004
2403102	--- Tobacco for use in pipes	46	36	2000 - 2004
2403109	--- Other	46	36	2000 - 2004
24039	-Other :			
240391	--Homogenized or "reconstituted" tobacco		18	
240399	--Other		20	

Until October 1999 the domestic market was protected by the "Law on Excise Taxes on Tobacco and Tobacco Products" which stipulated a large difference between the excise taxes for imported

and domestically produced tobacco products.

Due to harmonization of this Law with the rules of the WTO the new “Law on Excise Taxes” and a new “Law on Tobacco” were adopted by the Croatian government in October 1999. The main characteristic of the new legislation is the abolition of differences between the excise taxes for imported and domestic tobacco products.

Currently, cigarettes are divided into three groups as follows:

- group A (popular group)
-
- group B (standard group)
-
- group C (extra group).

Group A includes cigarettes based on a mixture with at least 60% non-aromatic, large-leaf tobacco (types of Virginia hot air dried, burley dried in shade) of which at least 25% is from lower purchased classes or from their substitutes (tobacco foil or technologically manufactured leaf veins). Cigarettes can be with or without filter and they are packed in soft packs, and are intended primarily for the Croatian market.

Group B includes cigarettes based on a mixture with at least 60% non-aromatic large-leaf tobacco (types of Virginia, burley, etc.) or their substitutes (tobacco foil or technologically manufactured leaf veins). They are filter tipped and packed in hard packs and are intended primarily for the Croatian market.

Group C includes all other cigarettes, which do not meet the conditions prescribed for cigarettes under groups A and B.

Excise Taxes are as follows:

Group A	4,50 HRK
Group B	4,90 HRK
Group C	8,10 HRK

Excise taxes are also paid for:

Tobacco 38,00 HRK
 Cigars 1,10 HRK
 Cigarillos 4,40 HRK

However, due to macroeconomic changes and the decision of the new Croatian government to reduce taxes on health and social security, the Croatian Parliament approved changes regarding the “Excise Taxes Law.” As a result, starting 1 July 2000 the excise taxes will be:

Group A	5,00 HRK
Group B	5,40 HRK

Group C	8,10 HRK
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Tobacco products

Croatia has three cigarette factories, which operate at Zagreb, Zadar and Rovinj. The largest factory from Rovinj, TDR, bought the Zagreb tobacco factory in Spring 1998. The intention of Rovinj was to buy the factory in Zadar as well, ensuring a monopoly position in the Croatian market. However, the so called "Tobacco War" erupted when BAT concluded in mid-May 1999 a take-over deal with shareholders of the Zadar Tobacco Factory, which had been till then out of operation for over 3 years.

This move was strongly opposed by TDR, which till then enjoyed an extremely strong position, owning 3 out of 4 primary tobacco processing plants.

In January 2000 the Croatian government adopted two chapters of regulations in accordance with the "Law on Tobacco." The purpose of the first chapter of regulations was to register tobacco producers, while the second one aimed at registering brands of tobacco products, as well as exporters and importers. However, BAT claimed the new regulations were not in compliance with the "Law on Tobacco" and that they were discriminatory towards BAT.

As a result BAT threatened to suspend its investments in the Zadar Tobacco Factory, sending a strong negative signal to other potential foreign investors. This pressure resulted in a decision of the Croatian Agency for Market Protection under which the Croatian government abandoned the problematic regulations in May 2000. The Ministry of Agriculture and Forestry is accordingly preparing new versions of the disputed regulations.

Production of cigarettes continues to grow (on average 5% annually) reaching almost 13 billion pieces in 1999. Almost all cigarettes are filter tipped. Light cigarettes are expanding on the market.

In 1999 total registered cigarette imports were 13 MT with value of \$546,700. Imports of U.S. cigarette with a value of \$54,433 were negligible.

In 1999 cigarettes exports amounted to 3,510 MT. The most important export destinations were Slovenia, Bosnia and Herzegovina, and Cyprus. The value of exports was around \$34 million. Slovenia took 40%, Bosnia and Herzegovina 30% and Cyprus 20% respectively.

Consumption

In November 1999 the Croatian Parliament approved the "Law on Restriction of Use of Tobacco Products" (Official Gazette No. 128/99). This law:

- § prohibits smoking at indoor meetings and other working areas except in those which have a sign that smoking is allowed.
- § prohibits selling of cigarettes to persons younger than 18 years
- § prohibits selling of cigarettes from automatic machines

- § prohibits advertising of tobacco and tobacco products
- § requires that all cigarette packs have a health warning “Smoking is harmful to health” and one of the following warnings:
 - S “Smoking causes cancer”
 - S “Smoking during pregnancy is dangerous for the child”
 - S “Smoking causes heart attacks and strokes”
 - S “Smoking shortens life”.

Nicotine and tar contents per cigarette are also required.

For tax purposes all packs have to be labeled with a Ministry of Finance label displaying the retail price and pack number. The labels have to be paid for before distribution on market

PSD Table						
Country	Croatia					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	7837	7837	7700	6490	0	7200
Beginning Stocks	17868	17868	19281	19281	19808	18890
Farm Sales Weight Prod	13523	13523	13398	11293	0	12528
Dry Weight Production	11658	11658	11550	9735	0	10800
U.S. Leaf Imports	40	40	0	0	0	0
Other Foreign Imports	2867	2867	2400	3794	0	3500
TOTAL Imports	2907	2907	2400	3794	0	3500
TOTAL SUPPLY	32433	32433	33231	32810	19808	33190
Exports	4765	4765	4800	5406	0	5500
Dom. Leaf Consumption	5935	5935	6081	6004	0	6074
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	2452	2452	2542	2510	0	2539
TOTAL Dom. Consumption	8387	8387	8623	8514	0	8613
TOTAL Disappearance	13152	13152	13423	13920	0	14113
Ending Stocks	19281	19281	19808	18890	0	19077
TOTAL DISTRIBUTION	32433	32433	33231	32810	0	33190

Import Trade Matrix			
Country	Croatia		
Commodity	Tobacco, Unmfg., Total		
Time period	calendar	Units:	metric tons
Imports for:	1999		2000
U.S.	720	U.S.	
Others		Others	
Zimbabwe	895		
Malawi	755		
Macedonia	700		
India	228		
Brazil	192		
Bosnia-Herzeg	100		
Total for Others	2870		0
Others not Listed	288		
Grand Total	3878		0

Export Trade Matrix			
Country	Croatia		
Commodity	Tobacco, Unmfg., Total		
Time period	calendar	Units:	metric tons
Exports for:	1999		2000
U.S.	0	U.S.	
Others		Others	
Egypt	1760		
Slovenia	1489		
France	1132		
Macedonia	1037		
Bosnia-Herzeg	761		
United Kingdom	269		
Total for Others	6448		0
Others not Listed	5		
Grand Total	6453		0

PSD Table						
Country	Croatia					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Filter Production	12100	11987	12100	12785	0	13000
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	12100	11987	12100	12785	0	13000
Imports	1	10	1	14	0	20
TOTAL SUPPLY	12101	11997	12101	12799	0	13020
Exports	2600	2561	2600	3451	0	4000
Domestic Consumption	9501	9436	9501	9348	0	9020
TOTAL DISTRIBUTION	12101	11997	12101	12799	0	13020

Import Trade Matrix			
Country	Croatia		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	calendar	Units:	millions
Imports for:	1999		2000
U.S.	2	U.S.	
Others		Others	
Germany	5		
Netherlands	2		
Total for Others	7		0
Others not Listed	4		
Grand Total	13		0

Export Trade Matrix			
Country	Croatia		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	calendar	Units:	millions
Exports for:	1999		2000
U.S.	10	U.S.	
Others		Others	
Slovenia	1439		
Bosnia-Herzeg	1048		
Cyprus	669		
Yugoslavia	281		
Total for Others	3437		0
Others not Listed	63		
Grand Total	3510		0